

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Lake Charter Township	County Berrien
Fiscal Year End December 31, 2005	Opinion Date June 23, 2006	Date Audit Report Submitted to State June 29, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Schaffer & Layher, PLLC		Telephone Number 269-983-0131	
Street Address 805 Van Brunt Ave.		City St. Joseph	State MI
Zip 49085			
Authorizing CPA Signature 	Printed Name David J. Schaffer	License Number 1101019753	

**LAKE CHARTER TOWNSHIP**  
**BERRIEN COUNTY, MICHIGAN**

**FINANCIAL REPORT WITH SUPPLEMENTARY INFORMATION**

**December 31, 2005**

**LAKE CHARTER TOWNSHIP  
Township Board Members  
December 31, 2005**

**TOWNSHIP BOARD**

John Gast	Supervisor
Gloria Payne	Clerk
Betty Korcek	Treasurer
Terry Eichler	Trustee
William Geukes	Trustee
Fritz Wolf	Trustee
Tom Carson	Trustee

**LAKE CHARTER TOWNSHIP  
Township Board Members  
December 31, 2005**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Lake Charter Township

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Charter Township, Michigan (the "Township"), as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake Charter Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Charter Township, Michigan as of December 31, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 8 and pages 30-31 are not a required part of the basic financial statements but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake Charter Township, Michigan basic financial statement. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads 'Schaffer &amp; Layher' in a cursive script.

Schaffer & Layher, PLLC  
June 23, 2006

David Schaffer, CPA  
Michael Layher, CPA  
*Founding Partners:*  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA

**Using this Annual Report**

This report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as whole and present longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

**Financial Highlights**

The Township's combined net assets decreased 1.5% from a year ago—decreasing from \$29,308,870 to \$28,862,335. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease in net assets of \$178,378 during the year, while the business-type activities also experienced a decrease in net assets of \$268,157. The governmental activity decrease was largely due to a transfer to the Water Fund for capital expenditures, while the decrease in business-type activities is due to depreciation.

**Overview of the Financial Statements**

This report consists of four parts---*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Township government, reporting the Township's operations in more detail than the government-wide statements.
  - The *governmental funds statements* tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
  - *Proprietary fund statements* offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer system.
  - *Fiduciary fund statements* provide information about the financial relationships, in which the Township acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required parts of the report, we have included a section with combining statements that provide details about our non-major governmental funds, which are added together and presented in single columns in the basic financial statements. The following table summarizes the major features of the Township's financial statements, including the portion of Township government they cover and the types of information they contain. The remainder of the overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Overview of the Financial Statements, Concluded**

Major Features of Lake Charter Township Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Township government (except fiduciary funds) and the Township's Component units.	The activities of the Township that are not proprietary or fiduciary, such as capital projects and cemetery.	Activities the Township operates similar to private businesses: the water and sewer system.	Instances in which the Township is the trustee or agent for someone else's resources, such as property tax collections.
Required Financial Statements.	> Statement of net assets > Statement of activities.	> Balance Sheet > Statement of revenues, expenditures, and changes in fund balances.	> Statement of net assets > Statement of revenues, expenditures, and changes in fund balances. > Statement of cash flows	> Statement of fiduciary net assets > Statement of changes in fiduciary net assets.
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term; the Township's funds do not currently contain capital assets, although they can.
Type of inflow/outflow information.	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

**Government-wide Statements**

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities, which is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional non-financial factors such as changes in the Township's property tax base and condition of the Township's infrastructure.

**Government-wide Statements, Concluded**

The government-wide financial statements of the Township are divided into two categories:

- **Governmental activities**—Most of the Township's basic services are included here, such as general government, public safety, public works, and recreation and culture.
- **Business-type activities**—The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer system are included here.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the Township's most significant funds—not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Township Board establishes other funds to control and manage money for a particular purpose (i.e. cemetery or capital projects monies) or to show that it is properly using certain taxes and grants (i.e. debt service monies).

The Township has the following three kinds of funds:

- *Governmental Funds*—Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statement provides a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary Funds*—Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds (a type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- *Fiduciary Funds*—The Township is the trustee, or fiduciary, for its property tax collections. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.



**Financial Analysis Of The Township As A Whole**

The Township's combined net assets were \$28,862,335. In a condensed format the following table below shows a breakdown of the net assets:

	Governmental Activities	Business-Type Activities	Total December 31, 2005	December 31, 2004
Current Assets	\$ 5,911,265	\$ 4,968,395	\$ 10,879,660	\$ 11,015,937
Capital Assets	2,804,683	16,882,838	19,687,521	20,035,239
<b>Total Assets</b>	<b>\$ 8,715,948</b>	<b>\$ 21,851,233</b>	<b>\$ 30,567,181</b>	<b>\$ 31,051,176</b>
Long-term debt outstanding	\$ -	\$ -	\$ -	\$ -
Other liabilities	1,609,508	95,338	1,704,846	1,742,306
<b>Total Liabilities</b>	<b>\$ 1,609,508</b>	<b>\$ 95,338</b>	<b>\$ 1,704,846</b>	<b>\$ 1,742,306</b>
Net Assets				
Invested in capital assets, net of related debt	\$ 2,804,683	\$ 16,882,838	\$ 19,687,521	\$ 20,035,239
Unrestricted	4,301,757	4,873,057	9,174,814	9,273,631
<b>Total Net Assets</b>	<b>\$ 7,106,440</b>	<b>\$ 21,755,895</b>	<b>\$ 28,862,335</b>	<b>\$ 29,308,870</b>

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$97,792 for the governmental activities. The current level of unrestricted net assets for governmental activities stands at \$4,301,757.

The following table shows the changes of the net assets as of the current date.

	Governmental Activities	Business-Type Activities	December 31, 2005	<u>Total</u> December 31, 2004
Program Revenues				
Charges for services	\$ 43,826	\$ 1,099,395	\$ 1,143,221	\$ 983,954
General Revenues				
Property Taxes	1,477,523	-	1,477,523	1,411,704
State Shared Revenues	218,365	-	218,365	207,086
Interest and Rentals	303,775	54,232	358,007	283,340
Miscellaneous	47,093	-	47,093	30,650
Transfers	(348,115)	348,115	-	-
Special Items	-	20,771	20,771	29,532
Total Revenues	<u>\$ 1,742,467</u>	<u>\$ 1,522,513</u>	<u>\$ 3,264,980</u>	<u>\$ 2,946,266</u>
Program Expenses				
General Government	\$ 877,999	\$ -	\$ 877,999	\$ 855,420
Public Safety	558,760	-	558,760	422,255
Public Works	186,608	-	186,608	13,047
Recreation and Culture	95,671	-	95,671	39,838
Sanitation	135,588	-	135,588	139,882
Library	66,219	-	66,219	64,211
Water	-	1,267,663	1,267,663	1,330,502
Sewer	-	523,007	523,007	524,500
Total Expenses	<u>\$ 1,920,845</u>	<u>\$ 1,790,670</u>	<u>\$ 3,711,515</u>	<u>\$ 3,389,655</u>
Change in Net Assets	<u>\$ (178,378)</u>	<u>\$ (268,157)</u>	<u>\$ (446,535)</u>	<u>\$ (443,389)</u>

The Township's net assets continue to remain healthy. The decrease in net assets is largely due to depreciation in the business-type activities. The Township has decided to not charge current customers of the sewer and water system for depreciation.

### **Governmental Activities**

The Township's total governmental revenues were consistent with prior year and expenses increased largely due to park and township hall improvements, along with road repairs and supplies in the fire department.

**Business-Type Activities**

The Township's business-type activities consist of the Water and Sewer Fund. We provide water to the Township residents from our water plant and sewage treatment through the GRSD Sewer Authority sewage treatment plant. In 2005, operating revenues increased by \$165,508 due to an increase in usage of both water and sewer, with expenses decreasing by \$64,332 largely due to a significant decrease in repairs and maintenance from the prior year.

**The Township's Funds**

Our analysis of the Township's major funds begins on page 11, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The Township's major fund for 2005 included the General and Capital Projects Fund.

The General Fund pays for most of the Township's governmental services, including legislative, public safety, library, sanitation, and other. The most significant is general government, which incurred expenses of \$591,557 in 2005. The service is supported by general revenue sources of the General Fund.

**General Fund Budgetary Highlights**

Over the course of the year, the Township Board amended the budget to take into account events during the year. The change in budget did adjust total revenues and expenditures. The primary adjustments were related to capital projects on the expenditure side and the funding of capital projects on the revenue side.

**Capital Asset and Debt Administration**

At the end of December 31, 2005, the Township had investment in capital assets for its governmental and business-type activities of \$19,687,521 (net of depreciation). This investment includes a broad range of capital assets, including land, buildings and improvements, furniture and equipment, and water and sewer lines. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statement because of Michigan law, which makes these roads the property of the Berrien County Road Commission, along with the responsibility to maintain them. The Township has chosen not to retroactively report any other infrastructure assets and will only report any additions prospectively, in accordance with G.A.S.B. #34.

**Long-Term Debt**

At the end of the current fiscal year, the Township had no debt outstanding.

**Economic Factors and Next Year's Budgets and Rates**

The Township anticipates revenue over expenditures in the governmental funds and the business-type activity funds will attempt to have positive cash flows. The Township is currently evaluating their water and sewer rates as it relates to maintaining a positive cash flow.

**Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**December 31, 2005**

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
<b>Assets</b>			
Cash and Cash Equivalents	\$ 466,631	\$ 856,989	\$ 1,323,620
Certificates of Deposit	3,190,885	816,877	4,007,762
Other Investments	23,701	-	23,701
Receivables, Net	38,676	115,040	153,716
Inventory	-	134,634	134,634
Internal Balances	2,168,212	2,875	2,171,087
Interest Receivable	23,160	14,070	37,230
Due From Other Governments	-	120,241	120,241
Equity Investment	-	2,907,669	2,907,669
Capital Assets, Net	2,804,683	16,882,838	19,687,521
Total Assets	<u>\$ 8,715,948</u>	<u>\$ 21,851,233</u>	<u>\$ 30,567,181</u>
<b>Liabilities</b>			
Accounts Payable	\$ 47,338	\$ 58,309	\$ 105,647
Accrued Sick Pay	20,997	37,029	58,026
Internal Balances	2,875	-	2,875
Deferred Revenue	1,537,882	-	1,537,882
Provision for Uncollectible Taxes	416	-	416
Total Liabilities	<u>\$ 1,609,508</u>	<u>\$ 95,338</u>	<u>\$ 1,704,846</u>
<b>Net Assets</b>			
Invested in Capital Assets Net of Related Debt	\$ 2,804,683	\$ 16,882,838	\$ 19,687,521
Unrestricted	4,301,757	4,873,057	9,174,814
Total Net Assets	<u>\$ 7,106,440</u>	<u>\$ 21,755,895</u>	<u>\$ 28,862,335</u>

*\*The accompanying notes are an integral part of these financial statements.*

**LAKE CHARTER TOWNSHIP**

**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**December 31, 2005**

♦ Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<i>Governmental Activities</i>						
General Government	\$ 877,999	17,473	\$ -	\$ (860,526)		\$ (860,526)
Public Safety	558,760	26,353	-	(532,407)		(532,407)
Public Works	186,608	-	-	(186,608)		(186,608)
Recreation and Culture	95,671	-	-	(95,671)		(95,671)
Sanitation	135,588	-	-	(135,588)		(135,588)
Library	66,219	-	-	(66,219)		(66,219)
Total Governmental Activities	<u>\$ 1,920,845</u>	<u>\$ 43,826</u>	<u>\$ -</u>	<u>\$ (1,877,019)</u>		<u>\$ (1,877,019)</u>
<i>Business-Type Activities</i>						
Water	\$ 1,267,663	\$ 821,396	\$ -		\$ (446,267)	\$ (446,267)
Sewer	523,007	277,999	-		(245,008)	(245,008)
Total Business-Type Activities	<u>\$ 1,790,670</u>	<u>\$ 1,099,395</u>	<u>\$ -</u>		<u>\$ (691,275)</u>	<u>\$ (691,275)</u>
Total Primary Government	<u>\$ 3,711,515</u>	<u>\$ 1,143,221</u>	<u>\$ -</u>	<u>\$ (1,877,019)</u>	<u>\$ (691,275)</u>	<u>\$ (2,568,294)</u>
<b>General Revenues</b>						
Property Taxes				\$ 1,477,523	\$ -	\$ 1,477,523
State Shared Revenues				218,365	-	218,365
Interest and Rentals				303,775	54,232	358,007
Miscellaneous				47,093	-	47,093
Transfers				(348,115)	348,115	-
<i>Special items-</i> Income from Joint Venture				-	20,771	20,771
Total General Revenues and special items				<u>\$ 1,698,641</u>	<u>\$ 423,118</u>	<u>\$ 2,121,759</u>
Change in net assets				\$ (178,378)	\$ (268,157)	\$ (446,535)
Net Assets-Beginning				7,284,818	22,024,052	29,308,870
Net Assets-Ending				<u>\$ 7,106,440</u>	<u>\$ 21,755,895</u>	<u>\$ 28,862,335</u>

*\*The accompanying notes are an integral part of these financial statements.*

**LAKE CHARTER TOWNSHIP****GOVERNMENTAL FUND BALANCE SHEET  
December 31, 2005**

	General Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and Cash Equivalents	\$ 213,613	\$ 208,344	\$ 44,674	\$ 466,631
Certificate of Deposits (maturity > three months)	646,677	2,525,073	19,135	3,190,885
Other Investments	23,701	-	-	23,701
Receivables	38,676	-	-	38,676
Interest Receivable	14,332	8,433	395	23,160
Due From Other Governmental Funds	-	-	6,800	6,800
Due from Fiduciary Funds	2,168,212	-	-	2,168,212
Total Assets	<u>\$ 3,105,211</u>	<u>\$ 2,741,850</u>	<u>\$ 71,004</u>	<u>\$ 5,918,065</u>
<b>Liabilities and Fund Equity</b>				
Liabilities				
Accounts Payable	\$ 46,049	\$ -	\$ 1,289	\$ 47,338
Accrued Sick Pay	9,017	-	11,980	20,997
Deferred Taxes	1,537,882	-	-	1,537,882
Due to Other Governmental Funds	6,800	-	-	6,800
Due to Proprietary Funds	-	2,875	-	2,875
Provision for Uncollectible Taxes	416	-	-	416
Total Liabilities	<u>\$ 1,600,164</u>	<u>\$ 2,875</u>	<u>\$ 13,269</u>	<u>\$ 1,616,308</u>
<b>Fund Balance</b>				
Unreserved:				
Designated	\$ -	\$ -	\$ -	\$ -
Undesignated	1,505,047	2,738,975	57,735	4,301,757
Total Fund Equity	<u>\$ 1,505,047</u>	<u>\$ 2,738,975</u>	<u>\$ 57,735</u>	<u>\$ 4,301,757</u>
Total Liabilities and Fund Equity	<u>\$ 3,105,211</u>	<u>\$ 2,741,850</u>	<u>\$ 71,004</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
* Capital assets used in governmental activities are not financial resources and are not reported in the funds				2,804,683
Net Assets of Governmental Activities				<u>\$ 7,106,440</u>

*\*The accompanying notes are an integral part of these financial statements.*

**LAKE CHARTER TOWNSHIP**

**GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
December 31, 2005**

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Non-Major Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues</b>				
Taxes	\$ 1,477,523	\$ -	\$ -	\$ 1,477,523
Licenses and Permits	26,353	-	-	26,353
State Grants	218,365	-	-	218,365
Charges for Services	-	-	17,473	17,473
Interest and Rentals	176,211	126,522	1,042	303,775
Other Revenues	47,093	-	-	47,093
Total Revenues	<u>\$ 1,945,545</u>	<u>\$ 126,522</u>	<u>\$ 18,515</u>	<u>\$ 2,090,582</u>
<b>Expenditures</b>				
Current				
General Government	\$ 591,557	\$ -	\$ 155,941	\$ 747,498
Public Safety	455,869	-	-	455,869
Public Works	186,608	-	-	186,608
Recreation and Culture	248,477	-	-	248,477
Sanitation	135,588	-	-	135,588
Library	66,219	-	-	66,219
Debt Service	-	-	-	-
Total Expenditures	<u>\$ 1,684,318</u>	<u>\$ -</u>	<u>\$ 155,941</u>	<u>\$ 1,840,259</u>
<b>Excess (Deficit) of Revenues Over (Under)</b>				
<b>Expenditures</b>	<u>\$ 261,227</u>	<u>\$ 126,522</u>	<u>\$ (137,426)</u>	<u>\$ 250,323</u>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers In	\$ 32,936	\$ -	\$ 179,479	\$ 212,415
Operating Transfers Out	(293,325)	(267,205)	-	(560,530)
Total Other Financing Sources(Uses)	<u>\$ (260,389)</u>	<u>\$ (267,205)</u>	<u>\$ 179,479</u>	<u>\$ (348,115)</u>
<b>Excess (Deficit) of Revenue and Other Sources Over (Under) Expenditures and Other Uses</b>	<u>\$ 838</u>	<u>\$ (140,683)</u>	<u>\$ 42,053</u>	<u>\$ (97,792)</u>
Fund Balance-January 1, 2005	1,504,209	2,879,658	15,682	
Fund Balance-December 31, 2005	<u>\$ 1,505,047</u>	<u>\$ 2,738,975</u>	<u>\$ 57,735</u>	

Amounts reported for governmental activities in the statement of activities are different because:

- \* Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Change in Net Assets of Governmental Activities	<u>(80,586)</u>
	<u>\$ (178,378)</u>

*\*The accompanying notes are an integral part of these financial statements.*



**PROPRIETARY FUND STATEMENT OF NET ASSETS**  
**December 31, 2005**

	Water <u>Fund</u>	Sewer <u>Fund</u>	Total Proprietary <u>Funds</u>
<b>Assets</b>			
Current Assets			
Cash and Cash Equivalents	\$ 602,674	\$ 254,315	\$ 856,989
Certificates of Deposit (maturity > three months)	-	816,877	816,877
Receivables, net	61,520	53,520	115,040
Inventory	134,634	-	134,634
Interest Receivable	2,361	11,709	14,070
Due From Other Governmental Funds	-	2,875	2,875
Due From Other Governments	-	120,241	120,241
Total Current Assets	<u>\$ 801,189</u>	<u>\$ 1,259,537</u>	<u>\$ 2,060,726</u>
Noncurrent Assets			
Equity Investment	\$ -	\$ 2,907,669	\$ 2,907,669
Capital Assets	7,869,192	9,013,646	16,882,838
Total Noncurrent Assets	<u>\$ 7,869,192</u>	<u>\$ 11,921,315</u>	<u>\$ 19,790,507</u>
Total Assets	<u>\$ 8,670,381</u>	<u>\$ 13,180,852</u>	<u>\$ 21,851,233</u>
<b>Liabilities</b>			
Current Liabilities			
Accounts Payable	\$ 27,153	\$ 31,156	\$ 58,309
Accrued Sick Pay	36,171	858	37,029
Total Current Liabilities	<u>\$ 63,324</u>	<u>\$ 32,014</u>	<u>\$ 95,338</u>
<b>Net Assets</b>			
Invested in Capital Assets-Net of Related Debt	\$ 7,869,192	\$ 9,013,646	\$ 16,882,838
Unrestricted	737,865	4,135,192	4,873,057
Total Net Assets	<u>\$ 8,607,057</u>	<u>\$ 13,148,838</u>	<u>\$ 21,755,895</u>

*\*The accompanying notes are an integral part of these financial statements.*

**LAKE CHARTER TOWNSHIP****PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS****December 31, 2005**

	Water Fund	Sewer Fund	Total Proprietary Funds
<b>Operating Revenues</b>			
Water Sales	\$ 777,898	\$ -	\$ 777,898
Sewage Disposal Services	-	257,962	257,962
Connections and Other Fees	43,498	20,037	63,535
Total Operating Revenues	<u>\$ 821,396</u>	<u>\$ 277,999</u>	<u>\$ 1,099,395</u>
<b>Operating Expenses</b>			
Personal Services	\$ 416,932	\$ 9,869	\$ 426,801
Contractual Services	-	282,168	282,168
Repairs and Maintenance	29,010	5,109	34,119
Other Supplies and Expenses	425,901	5,619	431,520
Depreciation	395,820	220,242	616,062
Total Operating Expenses	<u>\$ 1,267,663</u>	<u>\$ 523,007</u>	<u>\$ 1,790,670</u>
Operating Loss	<u>\$ (446,267)</u>	<u>\$ (245,008)</u>	<u>\$ (691,275)</u>
<b>Nonoperating Revenues(Expenses)</b>			
Interest and Investment Revenue	\$ 24,201	\$ 30,031	\$ 54,232
Income from Joint Venture	-	20,771	20,771
Total Nonoperating Revenues(Expenses)	<u>\$ 24,201</u>	<u>\$ 50,802</u>	<u>\$ 75,003</u>
Loss Before Contributions and Transfers In(Out)	\$ (422,066)	\$ (194,206)	\$ (616,272)
Transfers In(Out)	<u>348,115</u>	<u>-</u>	<u>348,115</u>
Change in Net Assets	\$ (73,951)	\$ (194,206)	\$ (268,157)
Total Net Assets-Beginning	<u>8,681,008</u>	<u>13,343,044</u>	<u>22,024,052</u>
Total Nets Assets-Ending	<u><u>\$ 8,607,057</u></u>	<u><u>\$ 13,148,838</u></u>	<u><u>\$ 21,755,895</u></u>

*\*The accompanying notes are an integral part of these financial statements.*

**PROPRIETARY FUND STATEMENT OF CASH FLOWS**  
**December 31, 2005**

	Proprietary Funds
<b>Cash Flows From Operating Activities</b>	
Receipts from Customers	\$ 1,079,824
Payments to Suppliers	(807,461)
Payments to Employees	(431,122)
Internal Activity-Payments from Other Funds	-
Other Receipts(Payments)	-
Net Cash Used by Operating Activities	<u>\$ (158,759)</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Operating Subsidies and Transfers from Other Funds	<u>\$ -</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Purchases of Capital Assets	\$ (348,930)
Transfers from Other Funds	348,115
Principal paid on Capital Debt	-
Interest paid on Capital Debt	-
Net Cash (Used) by Capital and Related Financing Activities	<u>\$ (815)</u>
<b>Cash Flow From Investing Activities</b>	
Interest and Dividends	\$ 49,293
Other Receipts(Payments)	454,639
Net Cash Provided by Investing Activities	<u>\$ 503,932</u>
Net Increase in Cash and Cash Equivalents	\$ 344,358
Cash and Cash Equivalents-Beginning	<u>512,631</u>
Cash and Cash Equivalents-Ending	<u><u>\$ 856,989</u></u>
<b>Reconciliation of Operating Income(Loss) to Net Cash Provided(Used) by Operating Activities</b>	
Operating Loss	\$ (691,275)
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	616,062
Change in Assets and Liabilities	
Receivables, net	(19,571)
Inventory	(4,904)
Accounts Payable	(54,750)
Accrued Sick Pay	(4,321)
Net Cash Used by Operating Activities	<u><u>\$ (158,759)</u></u>

*\*The accompanying notes are an integral part of these financial statements.*

**FIDUCIARY FUNDS-STATEMENT OF NET ASSETS  
December 31, 2005**

	Agency Funds Trust & Agency <u>Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,062,326
Taxes Receivable	<u>5,543,598</u>
Total Assets	<u><u>\$ 6,605,924</u></u>
<b>Liabilities</b>	
Due to other governmental funds:	
General Fund	\$ 2,168,212
Due to other governmental units	<u>4,437,712</u>
Total Liabilities	<u><u>\$ 6,605,924</u></u>

*\*The accompanying notes are an integral part of these financial statements.*

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Lake Charter Township (the “Township”) conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

**A. Reporting Entity**

The Township is governed by an elected seven-member council (Board). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria are established under GASB #39 for which organizations is to be included in the reporting entity. See the following criteria and descriptions for the component units reported:

**Blended Component Units**—A blended component unit is a legally separate entity from the Township, but is so intertwined with the unit that it is, in substance, the same as the Township. It is reported as part of the Township and blended into the appropriate fund types. There were no such units at December 31, 2005.

**Discretely Presented Component Units**— The discretely presented component unit is an entity that is legally separate from the Township, but for which the unit is financially accountable, or its relationship with the unit is such that exclusion would cause the unit’s financial statements to be misleading or incomplete. There were no such units at December 31, 2005.

**Jointly Governed Organization**—The Township has no jointly governed organizations.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**  
**B. Government-Wide and Fund Financial Statements, concluded**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**  
**C. Government-Wide and Fund Financial Statements, continued**

**Property Taxes**--The Township's property taxes attach as an enforceable lien on December 1<sup>st</sup>, on the taxable valuation of property (as defined by State statutes) located in the Township and payable on February 15 of the succeeding year. The Township's 2005 ad valorem tax is levied and collectible on December 1, 2005 and it is recognized as revenue in the ensuing year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 taxable valuation of the Township totaled \$641.9 million, on which ad valorem taxes are levied and consisted of 2.3 mills for the Township's operating purposes.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund is used by the Township to fund and utilize for future capital projects.

The Township reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**  
**C. Government-Wide and Fund Financial Statements, concluded**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**D. Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value and consist of only certificates of deposit greater than 90 days.

Receivables and Payables—In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets—Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical



**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**  
**D. Assets, Liabilities, and Net Assets or Equity, continued**

cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Township has chosen not to retroactively report any other infrastructure assets and will only report any additions prospectively in accordance with G.A.S.B. #34.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there were no assets under construction and no interest expense to capitalize.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Land Improvements	10 to 20 years
Water and Sewer Lines	50 to 75 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation and Sick Leave)—It is the Township's policy to permit employees to accumulate earned and unused sick and vacation pay benefits. There are liabilities for unpaid accumulated sick leave since the government does have a policy to pay any amounts when employees separate from service with the government.

Long-Term Obligations—In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**  
**D. Assets, Liabilities, and Net Assets or Equity, concluded**

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designations of fund balance represent tentative management plans that are subject to change.

Estimates—The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at the fiscal year end. The Township Supervisor submits the proposed operating budget for the fiscal year commencing January 1<sup>st</sup> and public hearings are conducted to obtain taxpayer comments. After submission, the Township Board formally adopts the budget and any future transfers or amendments must be approved by the Township Board.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing board (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by January 1<sup>st</sup>. Expenditures in excess of the amounts budgeted is violation of P.A. 621 of 1978, Section 18(1) as amended. State law permits Townships to amend its budgets during the year. There was one amendment during the year.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, CONCLUDED**

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Major Budgeted Funds—During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund</b>			
General Government-Township Board	\$ 188,203	\$ 191,461	\$ (3,258)
Public Works-Highways and Streets	158,250	186,608	(28,358)
Transfer to Other Funds	142,954	293,325	(150,371)

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and had no impact on the financial results of the Township.

Fund Deficits—The Township has no accumulated fund balance/retained earning deficits in their reported funds.

**NOTE 3. DEPOSITS AND INVESTMENTS**

At December 31, 2005, the Township's deposits and investments were reported in the basis financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>
Cash and Cash Equivalents	\$ 466,631	\$ 856,989	\$ 1,323,620	\$ 1,062,326
Certificate of deposits	3,190,885	816,877	4,007,762	-
Total	<u>\$ 3,657,516</u>	<u>\$ 1,673,866</u>	<u>\$ 5,331,382</u>	<u>\$ 1,062,326</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Bank Deposits (checking and savings accounts, C/D's)	\$ 1,323,061	\$ 1,062,326
Certificate of Deposits > 90 days	4,007,762	-
Petty Cash and Cash on Hand	559	-
	<u>\$ 5,331,382</u>	<u>\$ 1,062,326</u>

**Bank Deposits:**

All cash of the Township is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

**Custodial Credit Risk – Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of December 31, 2005, \$5,658,512 of the Township's bank balance of \$6,458,463

**NOTE 3. DEPOSITS AND INVESTMENTS, CONTINUED**

was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

**Investments:**

Michigan law permits investments in: 1) Bonds and other obligations of the United States Government; 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively; 3) Certain commercial paper; 4) United States Government repurchase agreements; 5) Banker's acceptance of the United States Bank; and 6) Certain mutual funds. The Township has put further restrictions on those investments through its current policy, and the following investment is permitted by law and policy.

**Interest rate risk.** In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's cash requirements.

**Credit Risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of December 31, 2005, the Township had no investment.

**Concentration of Credit Risk.** The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As of December 31, 2005, the Township had no investment.

**Custodial Credit Risk – Investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Township will do business. As of December 31, 2005, the Township had no investment.

**Foreign Currency Risk.** The Township is not authorized to invest in investments which have this type of risk.

**NOTE 3. DEPOSITS AND INVESTMENTS, CONCLUDED**

The Township has an investment in a non-profit ambulance service. This service is jointly owned by several other local units of governments and is uninsured and unregistered. The carrying amount (\$23,701) and market value are considered to be the same.

**NOTE 4. RECEIVABLES**

Receivables as of year-end for the Township's individual major and nonmajor funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Water and <u>Sewer</u>	Non-Major <u>Funds</u>	Fiduciary <u>Funds</u>	<u>Total</u>
Taxes Receivable	\$ -	\$ -	\$ -	\$ -	\$ 5,543,598	\$ 5,543,598
Accounts	38,676	-	115,040	-	-	153,716
Interest Receivable	14,332	8,433	14,070	395	-	37,230
Intergovernmental	2,168,212	-	2,875	6,800	-	2,177,887
Due From Other Governments	-	-	120,241	-	-	120,241
Net Receivables	<u>\$ 2,221,220</u>	<u>\$ 8,433</u>	<u>\$ 252,226</u>	<u>\$ 7,195</u>	<u>\$ 5,543,598</u>	<u>\$ 8,032,672</u>

## NOTE 5. CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b><i>Governmental Activities</i></b>				
Capital assets not being depreciated				
Land	\$ 549,615	\$ -	\$ -	\$ 549,615
Capital assets being depreciated				
Land improvements	\$ 498,685	\$ 78,315	\$ -	\$ 577,000
Buildings and building improvements	2,732,206	92,903	-	2,825,109
Vehicles	1,162,211	-	-	1,162,211
Equipment	552,751	10,850	-	563,601
Subtotal	\$ 4,945,853	\$ 182,068	\$ -	\$ 5,127,921
Less: Accumulated Depreciation	(2,610,199)	(262,654)	-	(2,872,853)
Net Capital Assets Being Depreciated	\$ 2,335,654	\$ (80,586)	\$ -	\$ 2,255,068
<b>Governmental activities capital total</b>				
<b>capital assets-net of depreciation</b>	<u>\$ 2,885,269</u>	<u>\$ (80,586)</u>	<u>\$ -</u>	<u>\$ 2,804,683</u>

Depreciation expense was charged to programs of the primary government as follows:

## Governmental Activities:

General Governments	\$130,501
Public Safety	\$102,891
Recreation and Culture	\$ 29,262

	Beginning Balance	Increases	Decreases	Ending Balance
<b><i>Business-Type Activities</i></b>				
Capital assets not being depreciated				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets being depreciated				
Infrastructure	\$20,308,898	\$ 348,930	\$ -	\$20,657,828
Buildings	7,806,900	-	-	7,806,900
Machinery and equipment	758,090	-	-	758,090
Subtotal	\$28,873,888	\$ 348,930	\$ -	\$29,222,818
Less: Accumulated Depreciation	(11,738,918)	(616,062)	-	(12,354,980)
Net capital assets being depreciated	\$17,134,970	\$ (267,132)	\$ -	\$16,867,838
<b>Business-Type Activities capital total</b>				
<b>capital assets-net of depreciation</b>	<u>\$17,149,970</u>	<u>\$ (267,132)</u>	<u>\$ -</u>	<u>\$16,882,838</u>

Depreciation was charged to programs for the business-type activities as follows:

Water	\$ 395,820
Sewer	220,242
	<u>\$ 616,062</u>

**NOTE 6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due to/from other funds</b>		
Sewer	Capital Projects	\$ 2,875
Cemetery	General	6,800
General	Trust & Agency	2,168,212
		<u>\$ 2,177,887</u>
<b>Transfers</b>		
Water	Capital Projects	\$ 234,269
General	Capital Projects	32,936
General	Water	113,846
Cemetery	General	179,479
<b>Total</b>		<u><u>\$ 560,530</u></u>

Inter-fund transfers consisted of a \$234,269 transfer from Capital Projects to the Water Fund, a \$32,936 transfer from Capital Improvements to the General Fund, a \$113,846 transfer to from the General Fund to the Water Fund, and a \$179,479 transfer from General to the Cemetery Fund.

**NOTE 7. DESIGNATED NET ASSETS**

At December 31, 2005, the Township had no designated net assets.

**NOTE 8. LONG TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. As of December 31, 2005, the Township had no bond or contractual obligations outstanding.

**NOTE 9. EQUITY INVESTMENT (PROPRIETARY FUND)**

The Township participates with Chikaming and New Buffalo Townships, and the Cities of New Buffalo and Bridgman (admitted under 2000 agreement) in a joint venture investment known as the GRSD Sewer Authority (the "Authority"). The Authority provides sewage treatment and collection facilities for the residents of those municipalities.

The Authority is governed by a joint board of six members consisting of one member from each of the participating municipalities appointed by their respective governing bodies, and the sixth member appointed by the other five.

On dissolution of the Authority, net assets will be shared on a pro-rata basis as follows:

New Buffalo Township	16.60%
Chikaming Township	28.60%
Lake Charter Township	16.60%
City of New Buffalo	21.60%
City of Bridgman	16.60%
	<u>100.00%</u>

The Township has accounted for this investment using the equity method. Financial statements are available from the Authority, with the following audited summary financial information on the GRSD Authority as of and for the year ended December 31, 2005, with a report thereto dated May 5, 2006:

Assets	\$ 15,414,413
Liabilities	149,112
Net Assets	15,265,301
Operating Revenues	1,396,834
Operating Expenses	1,373,140
Nonoperating Revenues	101,434
Net Earnings	125,128

The Township's net investment and share of the operating results of the Authority are reported in the Sewer Fund. The Township's equity investment was \$2,907,669 as of December 31, 2005.



**NOTE 10. RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township carries insurance for these risks. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 11. SCHEDULE OF REVENUES AND EXPENDITURES FOR CONSTRUCTION ENFORCING AGENCIES**

The Township charges fees for the inspection of building electrical permits. These fees charged are not intended to recover the full cost of the enforcing agency and the related revenues and costs are tracked within the general fund. Pursuant to public Act 245 of 2002, the following schedule shows the breakdown of the related revenues and expenditures.

	For the Period ended 1/1/2005 to 12/31/2005
Revenues:	\$ 26,353
Fees Charged	63,504
Expenses	<u>\$ (37,151)</u>

**NOTE 12. ECONOMIC DEPENDENCY**

One taxpayer in the Township, American Electric Power, accounts for 94% of the total non-homestead taxable value of real and personal property in the Township.

**NOTE 13. POST EMPLOYMENT BENEFITS**

The Township does not provide post employment benefits for any of its employees.

**NOTE 14. EMPLOYEE RETIREMENT PLAN AND DEFERRED COMPENSATION PLAN****EMPLOYEE RETIREMENT PLAN**

The Township provides pension benefits for all of its township board members and salaried employees over the age of 18 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Township's annual contribution to the plan is equal to 8% of compensation. Employees are required to make an after tax contribution of 2% of compensation and may make additional voluntary after tax contributions ranging from 1% to 10% of compensation.

Elected officials who utilize the plan, in lieu of their compensation being subject to social security, use the above schedule or 7.5% of pay which ever is greater.

Benefits attributable to Township contributions shall be 100% vested on death, total disability or normal retirement. Upon early retirement or on termination of service, other than because of death, disability or normal retirement, such benefits shall vest upon completion of 20 months of service.

The Township's total payroll in 2005 was \$798,965. The contributions were calculated using the criteria and schedule shown above. The required contributions for 2005 for both the Township, including any fees, and employees were made and amounted to \$43,873 and \$10,968 respectively.

## **REQUIRED SUPPLEMENTAL INFORMATION**

**LAKE CHARTER TOWNSHIP****BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
December 31, 2005**

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance with Amended <u>Budget</u>
Beginning of Year Fund Balance	\$ 1,504,209	\$ 1,504,209	\$ 1,504,209	
<b>Resources(Inflows)</b>				
Taxes	\$ 1,442,240	\$ 1,465,432	\$ 1,477,523	\$ 12,091
Licenses and Permits	18,000	18,174	26,353	8,179
State Grants	216,431	178,966	218,365	39,399
Interest and Rentals	169,000	168,239	176,211	7,972
Other Revenues	21,900	30,238	47,093	16,855
Transfer from Other Funds	-	-	32,936	32,936
Amounts Available for Appropriation	<u>\$ 1,867,571</u>	<u>\$ 1,861,049</u>	<u>\$ 1,978,481</u>	<u>\$ 117,432</u>
<b>Charges to Appropriations(Outflows)</b>				
General Government				
Township Board	\$ 143,417	\$ 188,203	\$ 191,461	\$ (3,258)
Supervisor	55,417	55,417	53,703	1,714
Elections	4,200	4,200	585	3,615
Police Post	53,987	62,201	50,281	11,920
Clerk	46,628	46,628	45,352	1,276
Board of Review	950	950	348	602
Treasurer	55,777	55,777	46,980	8,797
Township Hall and grounds	221,538	227,028	198,135	28,893
Board of Appeals	4,600	4,600	1,895	2,705
Planning Commission	5,000	5,540	2,817	2,723
Public Safety				
Fire	242,245	247,011	168,384	78,627
Police	155,000	155,000	153,276	1,724
Ambulance	73,000	73,000	70,705	2,295
Building and Electrical Inspections	70,429	70,542	63,504	7,038
Public Works				
Highways and Streets	133,250	158,250	186,608	(28,358)
Recreation and Culture				
Parks and Recreation	219,723	343,334	248,477	94,857
Sanitation	150,000	151,000	135,588	15,412
Library	63,000	63,000	66,219	(3,219)
Transfer to Other Funds	168,978	142,954	293,325	(150,371)
Total Charges to Appropriations	<u>\$ 1,867,139</u>	<u>\$ 2,054,635</u>	<u>\$ 1,977,643</u>	<u>\$ 76,992</u>
Budgetary Fund Balance-December 31, 2005	<u>\$ 1,504,641</u>	<u>\$ 1,310,623</u>	<u>\$ 1,505,047</u>	

**LAKE CHARTER TOWNSHIP****CAPITAL PROJECTS FUND  
December 31, 2005**

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance with Amended <u>Budget</u>
Beginning of Year Fund Balance	<u>\$ 2,879,658</u>	<u>\$ 2,879,658</u>	<u>\$ 2,879,658</u>	
<b>Resources(Inflows)</b>				
Interest	<u>\$ 79,508</u>	<u>\$ 110,000</u>	<u>\$ 126,522</u>	<u>\$ 16,522</u>
Amounts Available for Appropriation	<u>\$ 79,508</u>	<u>\$ 110,000</u>	<u>\$ 126,522</u>	<u>\$ 16,522</u>
<b>Charges to Appropriations(Outflows)</b>				
Transfer to Other Funds	<u>\$ -</u>	<u>\$ (270,000)</u>	<u>\$ (267,205)</u>	<u>\$ 2,795</u>
Total Charges to Appropriations	<u>\$ -</u>	<u>\$ (270,000)</u>	<u>\$ (267,205)</u>	<u>\$ 2,795</u>
Budgetary Fund Balance-December 31, 2005	<u><u>\$ 2,959,166</u></u>	<u><u>\$ 2,719,658</u></u>	<u><u>\$ 2,738,975</u></u>	

## **OTHER SUPPLEMENTAL INFORMATION**

**LAKE CHARTER TOWNSHIP****COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS  
December 31, 2005**

	Cemetery <u>Fund</u>	Debt Service <u>Fund</u>	Total Non-Major Governmental <u>Funds</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 44,674	\$ -	\$ 44,674
Certificates of Deposit (maturity > three months)	16,492	2,643	19,135
Interest Receivable	395	-	395
Due from other governmental funds	6,800	-	6,800
Total Assets	<u>\$ 68,361</u>	<u>\$ 2,643</u>	<u>\$ 71,004</u>
<b>Liabilities and Fund Equity</b>			
Liabilities			
Accounts Payable	\$ 1,289	\$ -	\$ 1,289
Accrued Sick Pay	11,980	-	11,980
Total Liabilities	<u>\$ 13,269</u>	<u>\$ -</u>	<u>\$ 13,269</u>
<b>Fund Balance</b>			
Unreserved:			
Designated	\$ -	\$ -	\$ -
Undesignated	55,092	2,643	57,735
Total Fund Equity	<u>\$ 55,092</u>	<u>\$ 2,643</u>	<u>\$ 57,735</u>
Total Liabilities and Fund Equity	<u>\$ 68,361</u>	<u>\$ 2,643</u>	<u>\$ 71,004</u>

**LAKE CHARTER TOWNSHIP**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**December 31, 2005**

	<u>Cemetery Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b>Revenues</b>			
Taxes and Penalties	\$ -	\$ -	\$ -
Charges for Services	17,473	-	17,473
Interest and Rentals	937	105	1,042
Total Revenues	<u>\$ 18,410</u>	<u>\$ 105</u>	<u>\$ 18,515</u>
<b>Expenditures</b>			
Current			
General Government	\$ 155,941	\$ -	\$ 155,941
Debt Service - Principal Retirement	-	-	-
Total Expenditures	<u>\$ 155,941</u>	<u>\$ -</u>	<u>\$ 155,941</u>
<b>Excess (Deficit) of Revenues Over (Under) Expenditures</b>	<u>\$ (137,531)</u>	<u>\$ 105</u>	<u>\$ (137,426)</u>
<b>Other Financing Sources(Uses)</b>			
Operating Transfers In	\$ 179,479	\$ -	\$ 179,479
Operating Transfers Out	-	-	-
Total Other Financing Sources(Uses)	<u>\$ 179,479</u>	<u>\$ -</u>	<u>\$ 179,479</u>
<b>Excess of Revenue and Other Sources Over Expenditures and Other Sources (Uses)</b>	<u>\$ 41,948</u>	<u>\$ 105</u>	<u>\$ 42,053</u>
Fund Balance-January 1, 2005	13,144	2,538	15,682
Fund Balance-December 31, 2005	<u><u>\$ 55,092</u></u>	<u><u>\$ 2,643</u></u>	<u><u>\$ 57,735</u></u>





June 26, 2006

To the Township Board of  
Lake Charter Township  
Bridgman, MI

In planning and performing our audit of the financial statement of Lake Charter Township ("Township") for the year ended December 31, 2005, we considered the Township's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control structure and its operation that we consider opportunities for strengthening internal controls and operating efficiency.

#### **SEGREGATION OF DUTIES**

The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Trustees remain involved in the financial affairs of the Township to provide oversight and independent review functions, and continue to look at ways to enhance controls with the existing staff.

#### **REVIEW GOVERNMENT ACCOUNTING STANDARD BOARD ("GASB") STATEMENT #40- DEPOSIT AND INVESTMENT RISK DISCLOSURES.**

Effective June 30, 2005, governmental entities will be required to expand their current disclosure requirements addressing common risks of deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by the investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should also be part of the disclosure.

The Township should review its investment policies to determine all common risk areas are identified and the appropriate level of risk for each area is quantified.

#### **ADOPTION OF CAPITALIZATION POLICY**

With the Township's adoption of G.A.S.B. 34 requirements, it is necessary for Township assets in all funds to be properly tracked, recorded, and depreciated in accordance with prescribed accounting policies

We recommend that the Township adopt a capitalization policy, through a resolution, for assets that have a life expectancy greater than one (1) year and a value over a certain dollar limit (e.g. \$5,000) to be capitalized for proper financial recording. The policy should also adopt how long each asset will be depreciated and any salvage value it may have.

David Schaffer, CPA  
Michael Layher, CPA  
Founding Partners:  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA

The report is intended solely for the information and use of Lake Charter Township management, and others within the Township, and is not intended to be and should not be used by anyone other than these parties.

We appreciate the courtesy and cooperation extended to us by you and members of the Township during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

A handwritten signature in cursive script that reads "Schaffer & Layher".

Schaffer & Layher, PLLC  
St. Joseph, MI